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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160

TO: THE COMMISSION

COMMENTS OF PUERTO RICO TELEPHONE COMPANY

Puerto Rico Telephone Company ("PRTC") hereby submits comments in response to the Commission's Further Notice of Proposed Rulemaking[1] regarding the development of a model intended to estimate the cost of providing universal service by non-rural carriers serving high cost areas.

As a threshold matter, it is inconsistent with Section 254(b)(3) of the Communications Act to group non-rural carriers serving insular areas with non-rural carriers serving non-insular areas for purposes of determining universal service support.[2] Insular areas pose unique challenges for predicting the cost of universal service that may not be accounted for in a model designed to predict cost in non-insular areas. In Puerto Rico,

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1. CC Docket 96-45, FCC 97-256 (rel. July 18, 1997).

2. On July 17, 1997, PRTC filed a Petition for Reconsideration with the Commission addressing this issue in detail.

for example, the island's low telephone penetration rate,[3] the rugged terrain (a mountain chain with peaks exceeding 4,000 feet spans the island's interior), the tropical climate, and the considerable portion of the population living below the poverty line,[4] all militate towards using a targeted approach to predict the cost of universal service. A methodology targeted specifically to insular areas is required to satisfy the statutory requirement that services and rates in insular areas are reasonably comparable to those for similar services in urban areas. 47 U.S.C. § 254(b)(3).

In this proceeding, PRTC has repeatedly apprised the Commission that it cannot fairly assess either the Hatfield or BCPM models because the models have not been populated with Puerto Rico data. See PRTC Reply Comments (filed Oct. 3, 1997), PRTC Comments (filed Sept. 2, 1997), and PRTC Comments (filed Aug. 8, 1997). PRTC therefore has been precluded from providing detailed responses to the Commission for assessing the models' operation for Puerto Rico. Notwithstanding the lack of data necessary to populate the models for Puerto Rico and to fully assess their effects, PRTC makes general comments on the following issues: general support facilities, depreciation, expenses, support areas and support for local usage.

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3. Telephone penetration in Puerto Rico, albeit steadily improving, is only 74% islandwide versus a nationwide average of 94%. Some areas of Puerto Rico have penetration below 60%.

4. Nearly half the population lives below the poverty line.

I. GENERAL SUPPORT FACILITIES

Incumbent local exchange carrier general support facilities (GSF) include investment and expenses related to vehicles, land, buildings and general purpose computers. BCPM computes GSF investment as a percentage of all other plant investment. To compute GSF investment unrelated to wire center buildings, Hatfield uses ARMIS data to compute a ratio of GSF investment to total plant-in-service investment. This ratio, it turn, is applied to the total plant-in-service investment that the model computes to arrive at the amount of GSF investment not related to wire center buildings.

With respect to calculation of GSF investment and expenses, the Commission asks how the selected model should account for three variables: (1) the costs of nonregulated activities, (2) the increasing use of computers, and (3) the fact that land values may vary significantly by state. FNPRM at ¶ 148. The effect of these variables cannot accurately be captured by additional model inputs unless the inputs are based on actual data. PRTC therefore agrees with Hatfield's proponents that the selected model should employ ARMIS data to calculate GSF. The use of ARMIS data will make unnecessary any strained attempt to estimate the effect of these variables because the data itself accounts for these variables on an actual cost basis.

II. DEPRECIATION

The Commission tentatively concludes that the selected model should use a weighted average of the depreciation rates authorized for carriers that are required to submit their rates to the Commission. FNPRM at ¶ 152. PRTC disagrees. An average depreciation rate (whether weighted or not) based on rates authorized by the Commission for other carriers would not account for actual differences in the useful life of telephone company investment. Indeed, weighing the depreciation rate as the Commission proposes could artificially skew the selected model. A better approach, and one that reflects actual telephone company investment decision making is to use economic depreciation lives. Given the rapid deployment of new technologies, a significant amount of telephone company plant and equipment may have shorter lives than reflected in the depreciation lives authorized by the Commission. For these reasons, the selected model should use economic depreciation rates.

III. EXPENSES

The Hatfield model estimates most expenses using ARMIS data, expressed as ratios of investment. BCPM estimates expenses on a per-line basis based on a survey of ILECs. As a general rule, expenses should be based on ARMIS data. First, ARMIS data is readily available and verifiable. Second, ARMIS data provides a snapshot of actual expenses that can be used to predict expenses for the near-term future. It is the best approximation of

forward-looking expenses that is available for a particular company. Third, ARMIS data is updated annually.

The Commission notes that users should be able to calculate expenses for small, medium and large companies. ARMIS data inherently distinguishes expenses associated with different size companies. ARMIS data will determine the level of expenses appropriate for a particular company rather than creating three artificial categories.

Expenses should not be mechanically based on line counts. In PRTC's case, the company may have higher expenses on a per-line basis than a company of comparable size because PRTC has atypically low penetration (approximately 74% islandwide). On a per-line basis, PRTC must maintain more plant since the company's plant bypasses a substantial number of homes. "Typical" LECs, with penetration rates of 94%, do not have similar per-line costs stemming from bypass.

BCPM and Hatfield fail to reflect the fact that expenses vary with climate and terrain factors.[5] By using ARMIS data, the selected model would overcome this serious shortcoming since the data, by definition, reflects the costs associated with such variables.

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5. In Puerto Rico, for example, there are higher outside plant maintenance costs associated with the extreme humidity and tropical weather.

IV. ADJUSTMENT OF PREDICTED COSTS

The Commission asks whether the selected model should adjust predicted costs annually, and if so how it should do so. FNPRM at ¶ 173. To increase the accuracy of the selected model's prediction of the costs of universal service, forward looking expenses should be updated annually. There is wide disagreement on the value of expense factors and how they should be derived. See e.g., FNPRM ¶¶ 161 and 170. PRTC believes that this conflict can be resolved by using ARMIS data to predict expenses. Expense factors generated from immediate historical costs are the best approximation of near-term future expenses. Using ARMIS data, expense factors could be revised annually resulting in a more accurate prediction of costs.

V. SUPPORT AREAS

A support area is the geographic area used to determine universal service support levels. In order to calculate support the Commission must know the number of lines in the support area. PRTC advocates calculating support on a wire-center basis. PRTC, like other LECs, keeps records of the number of lines served by each wire center. It does not keep records on a CBG, CB or grid cell basis and geo coding households to obtain sufficient accuracy for the prediction of costs on any one of these bases could take years.

VI. SUPPORT FOR LOCAL USAGE

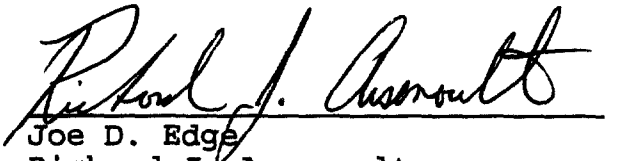
PRTC concurs with the Commission's tentative conclusion that a local usage component should be included in the definition of universal service. FNPRM ¶ 178. Omission of a local usage component would create a regulatory bias in favor of wireless carriers that provide service with plant that allows relatively inexpensive access to the network but that have higher usage costs. Determining the level of local usage to include in the selected model, however, is a complex task. Most importantly, the level must be calculated so that it does not have an adverse affect on local usage. PRTC believes that the proper level of local usage should be set on a company-by-company basis to reflect varying usage patterns. Specifically, the Commission should prescribe this level to be the average number of minutes per month used by customers subscribing to basic flat rate service.

VII. CONCLUSION

Because the models have not been populated with Puerto Rico data the assumptions underlying them have not been tested for Puerto Rico. Nevertheless, PRTC's comments in this proceeding demonstrate that, as applied to Puerto Rico, the BCPM and Hatfield models are seriously flawed in many respects. See PRTC Reply Comments (filed Oct. 3, 1997), PRTC Comments (filed Sept. 2, 1997), and PRTC Comments (filed Aug. 8, 1997). PRTC therefore urges the Commission to establish a process for review and evaluation of the models as they pertain to insular areas. This

process should allow adequate time for population of the models with Puerto Rico data, as well as review and testing of their results. Until a model is validated for application to Puerto Rico, USF support for PRTC should be determined on the basis of the company's actual costs of service as recorded in its books of account.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I, Richard J. Arsenault, certify that true and correct copies of the foregoing Reply Comments of Puerto Rico Telephone Company were delivered by U.S. Mail, first-class postage pre-paid, on October 17, 1997, to the following:

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